

## Message Text

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ACTION EUR-25

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FM AMEMBASSY MOSCOW

TO SECSTATE WASHDC 1330

INFO AMEMBASSY BELGRADE

USMISSION BERLIN

AMEMBASSY BONN

AMEMBASSY BUCHAREST

AMEMBASSY BUDAPEST

AMEMBASSY PRAGUE

AMEMBASSY SOFIA

USEC BRUSSELS 643

USMISSION NATO

AMEMBASSY WARSAW

C O N F I D E N T I A L MOSCOW 11906

E.O. 11652 GDS

TAGS: ETRD EMIN EIND UR HU RO COMECON

SUBJ: HUNGARIAN AGREEMENT WITH USSR FOR PARTICIPATION IN  
KURSK STEEL COMPLEX

REF: A) MOSCOW 8557; B) MOSCOW 6326

1. SUMMARY: SOVIET-HUNGARIAN AGREEMENT SIGNED IN MOSCOW  
JULY 29 IS FIRST REPORTED BILATERAL AGREEMENT BETWEEN USSR  
AND AN EAST EUROPEAN COUNTRY FOR CONSTRUCTION OF KURSK IRON  
AND STEEL COMPLEX, A MULTILATERAL CEMA PROJECT, ONE SECTOR  
OF WHICH WILL BE BUILT BY FRG FIRMS. AGREEMENT SPECIFIES  
MACHINERY AND EQUIPMENT WHICH HUNGARY WILL CONTRIBUTE,  
AND -UNEXPECTEDLY- SPECIFIC QUANTITIES OF ORE AND STEEL WHICH  
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HUNGARY WILL RECEIVE IN RETURN OVER PERIOD 1979-90. AGREEMENT

INDICATES FORWARD MOVEMENT ON CEMA PORTION OF KURSK PROJECT. FRG FIRMS ARE CURRENTLY NEGOTIATING CONTRACTS FOR CONSTRUCTION OF FRG SECTOR WHICH WILL BE BUILT UNDER CASH ARRANGMENT CONCLUDED IN APRIL BETWEEN MOSCOW AND BONN. REPORT ON HUNGARIAN-SOVIET AGREEMENT INDICATES THAT ROMANIAN PARTICIPATION IN CEMA SECTOR IS STILL LIMITED TO PRODUCTION OF FERROALLOYS. END SUMMARY.

2. ARTICLE IN JULY 31 TASS VESTNIK PROVIDES FIRST DETAILED INFORMATION EMBASSY HAS NOTED ON PARTICIPATION BY AN EAST EUROPEAN COUNTRY IN CEMA MULTILATERAL PROJECT FOR CONSTRUCTION OF IRON AND STEEL COMPLEX AT KURSK (ABOUT 300 MILES SOUTH OF MOSCOW), ONE SECTOR OF WHICH IS BEING BUILT BY FRG FIRMS UNDER DM 2.5 BILLION CASH CONTRACT ARRANGED BETWEEN BONN AND MOSCOW IN APRIL. VESTNIK REPORTS THAT AGREEMENT ON SPECIFIC HUNGARIAN PARTICIPATION IN CEMA SECTOR OF KURSK COMPLEX WAS SIGNED IN MOSCOW JULY 29 BY HUNGARIAN DELEGATION HEADED BY HUNGARIAN DEPUTY FOREIGN TRADE MINISTER YONE TORDAI AND DEPUTY MINISTER OF METALLURGY JOSZEF KOCHIS. SOVIET SIDE LED BY DEPUTY FOREIGN TRADE MINISTER LEONID ZORIN AND DEPUTY MINISTER OF FERROUS METALLURGY VORONOV.

3. AGREEMENT STATES THAT DURING YEARS 1975 THROUGH 1978 HUNGARY WILL DELIVER TO USSR CONVEYORS FOR TRANSPORT OF HOT INGOTS, METALLURGICAL CRANES, AIR HEATERS, PUMPS, INDUSTRIAL FITTINGS, TECHNICAL EQUIPMENT FOR PRODUCTION CONTROL, LABORATORY EQUIPMENT, IKARUS BUSES, EQUIPMENT FOR MEDICAL ESTABLISHMENTS, FURNITURE FOR ADMINISTRATIVE BUILDINGS AND EQUIPMENT FOR THE MUNICIPAL ECONOMY. THE OVERALL VALUE OF THESE EXPORTS WILL BE 26.5 MILLION RUBLES (ABOUT DOLS 35 MILLION).

4. IN RETURN, THE USSR WILL DELIVER TO HUNGARY EACH YEAR, DURING PERIOD 1979 THROUGH 1990, 150,000 TONS OF IRON ORE CONCENTRATE, 150,000 TONS OF SINTERING ORE, 4,000 TONS OF FERROMANGANESE AND 3,000 TONS OF FERROSILICON.

5. ARTICLE NOTES THAT AGREEMENT WAS SIGNED PURSUANT TO GENERAL AGREEMENT CONCLUDED APRIL 24, 1974, BETWEEN USSR AND BULGARIA, HUNGARY, GDR, POLAND, AND CZECHOSLOVADIA FOR CONFIDENTIAL

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CONSTRUCTION AND EXPANSION OF A MINERAL PROCESSING AND METALLURGICAL COMBINE IN THE USSR. IT CONCLUDES WITH STATEMENT THAT BESIDES EE COUNTRIES MENTIONED ABOVE, ROMANIA WILL ALSO TAKE PART IN "DEVELOPMENT ON TERRITORY OF SOVIET UNION OF PRODUCTION OF SPECIFIC TYPES OF FERROALLOYS (FERROSPLAVOV)."

6. COMMENT: WE FIND THIS ARTICLE PARTICULARLY INTERESTING

ON SEVERAL POINTS. FIRST, IT IS UNUSUALLY SPECIFIC IN REPORTING NOT ONLY HUNGARIAN CONTRIBUTIONS TO A MULTILATERAL CEMA PROJECT, BUT ALSO EXACT RETURN HUNGARY WILL RECEIVE. IT ALSO INDICATES THAT CEMA SECRETARIAT AND USSR ARE MOVING AHEAD WITH THE CEMA SECTOR OF KURSK PROJECT, IN PARALLEL WITH PLANNING AND NEGOTIATION OF CONTRACTS WITH FRG FIRMS FOR FRG SECTOR. (FRG EMBASSY MOSCOW TELLS US SALZGITTER, KORFF, DEMAG, KRUPP NOW ACTIVELY INVOLVED IN PREPARATIONS FOR KURSK.) FINALLY, WE NOTE THAT ROMANIAN PARTICIPATION REMAINS RESTRICTED TO FERROALLOY PRODUCTION, AS ORIGINALLY DETERMINED IN APRIL AGREEMENT (PARA 3, REF B), DESPITE INDICATIONS HERE THAT ROMANIA WOULD BE INTERESTED IN HAVING ACCESS TO KURSK ORES (REF A).

7. IN ACCORDANCE WITH STANDARD CEMA PROCEDURE, OVER NEXT SEVERAL MONTHS WE CAN EXPECT NEGOTIATION OF BILATERAL AGREEMENTS BETWEEN USSR AND OTHER EE COUNTRIES FOR PARTICIPATION IN KURSK, WHOSE EVENTUAL OVERALL OUTPUT (CEMA AND FRG SECTORS COMBINED) HAS BEEN VARIOUSLY PROJECTED AT BETWEEN TEN AND TWELVE MILLION TONS OF IRON AND STEEL PRODUCTS PER YEAR.

8. IN VIEW OF CONTINUAL INFLATION IN WORLD PRICES, SOVIETS MAY HAVE DECIDED THAT IT IS ADVANTAGEOUS TO PUBLICIZE QUANTITIES OF IRON ORE, STEEL, ASBESTOS, CELLULOSE, OTHER INCREASINGLY VALUABLE RAW MATERIALS WHICH EAST EUROPEAN COUNTRIES WILL RECEIVE AS REWARD FOR EXPENSIVE INVESTMENTS IN PROJECTS LOCATED ON SOVIET TERRITORY.  
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